

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: July 15, 2009
POSITION: Oppose

BILL NUMBER: SB 546
AUTHOR: A. Lowenthal
RELATED BILLS: AB 907
(Chesbro, 2009)

BILL SUMMARY: Used Oil

This bill would make multiple structural changes to the Integrate Waste Management Board's (Waste Board's) used oil recycling program. The bill would increase the manufacturers' fee and the incentive payment amount, change program definitions, and revise tracking and used oil management requirements. Additionally, the bill would increase funding available to local authorities for used oil programs.

FISCAL SUMMARY

The bill would result in \$8 million in additional California Used Oil Recycling Fund (Oil Fund) revenue. The Department of Finance (Finance) estimates that the total cost of the new requirements would be almost \$9 million – including a \$3 million increase to the allocation for local grant funding, \$5.7 million for additional incentive payments, and two positions for additional oversight by the Department of Toxic Substances Control (Toxics). As a result of decreased revenues, the Oil Fund is currently unable to provide local grants at the minimum level guaranteed by statute. The 2009-10 Budget Act appropriates \$6 million for used oil program local assistance grants. This appropriation level is \$4 million below the statutory guarantee of \$10 million.

COMMENTS

Finance is opposed to this bill because it proposes an increase in local grant funding that is not supported by the included revenue formula. Although the bill implies that the normal annual funding level for local grants would be \$13 million, it includes provisions that allow for lower funding when funds are not available. Finance is concerned that the proposed \$13 million funding level is not likely to be attainable given the proposed changes to the fee and incentive structure. The bill would increase the incentive rate to 60 percent more than the fee paid by manufacturers. This imbalance is not sustainable in the long term and could exacerbate current shortfalls.

The bill would amend the used oil recycling program by:

- Increasing the fee paid by oil manufacturers from \$0.16 to \$0.24 for every gallon of lubricating oil sold, transferred, or imported in the state. The Waste Board would be allowed to adjust the fee to reflect changes in the California Consumer Price Index after 2011.
- Increasing the recycling incentive paid to every industrial generator, curbside collection program, and certified used oil collection center for used lubrication oil from \$0.16 to \$0.40 per gallon and setting the rerefining incentive to \$0.02 per gallon.
- Increasing the guaranteed minimum amount available for implementing local used oil collection programs from \$10 million to \$13 million. Should sufficient funds not be available, the bill would allow the amount to be less than \$13 million, but not less than one-half the amount that remains in the fund after all other expenditures are made.

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Analyst/Principal (0691) K. DaRosa	Date	Program Budget Manager Karen Finn	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS Form DF-43 (Rev 03/95 Buff)

A. Lowenthal

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SB 546

COMMENTS (continued)

- Imposing certification requirements on rerefiners and out-of-state used oil recycling facilities.
- Revising reporting requirements for industrial generators of used lubricating oil, used oil collection centers, and curbside collection programs in order to be eligible to collect recycling incentive payments.
- Revising definitions and conditions for participation in the program.

The current recycling incentive amount is equal to the fee paid on the sale of lubricating oil. The bill would increase the recycling payment by \$0.24 per gallon while increasing the fee by on \$0.08 per gallon. The desirable result of increasing the incentive payment amount would be an increased rate of used oil recycling. However, Finance is concerned that an increase in the rate of used oil recycling would result in even less funding being available for local grants and ultimately could lead to the Oil Funds insolvency.

Approximately \$16 million in fees are collected annually from manufacturers of lubricating oil and deposited into the Oil Fund. The Waste Board anticipates the fee increase would generate \$13 million in additional revenue. However, Finance believes that this 50 percent increase would generate only an additional \$8 million, based on current revenue projections.

Should participation by recyclers and the volume of recycled used oil continue at the present rate, a 150 percent increase to the recycling incentive amount would create \$5.7 million in additional costs over the current projected amount of \$3.8 million. However, it is reasonable to expect that the increase proposed by the bill would lead to some level of increased recycling. While this would have positive benefits for the environment, it also would increase cost pressure on the Oil Fund and potentially offset any additional fee revenue.

The bill would increase the minimum allocation for local programs to \$13 million per year – a \$3 million increase over the current level. Additionally, Toxics estimates the need for two additional positions to perform the oversight required by this bill at a cost of \$210,000 Oil Fund annually. Oversight costs, increased incentives, and adding \$3 million to local allocations would total almost \$9 million. The proposed revenue increase of \$8 million would not cover all costs and leave the fund unable to support all of the proposed program requirements.

Fiscally, this bill would have the same affect as the fundamentally similar AB 907.

Code/Department Agency or Revenue Type		SO	(Fiscal Impact by Fiscal Year)							
		LA	(Dollars in Thousands)							
		CO	PROP							Fund
		RV	98	FC	2009-2010	FC	2010-2011	FC	2011-2012	Code
1256/Othr Reg Fee		RV	No	U	\$8,000	U	\$8,000	U	\$8,000	0100
3910/Waste Mgmt		SO	No	A	\$5,700	A	\$5,700	A	\$5,700	0100
3910/Waste Mgmt		LA	No	A	\$3,000	A	\$3,000	A	\$3,000	0100
3960/ToxicSubCtrl		SO	No	A	\$210	A	\$210	A	\$210	0100
<u>Fund Code</u>	<u>Title</u>									
0100	Used Oil Recycling Fund, California									